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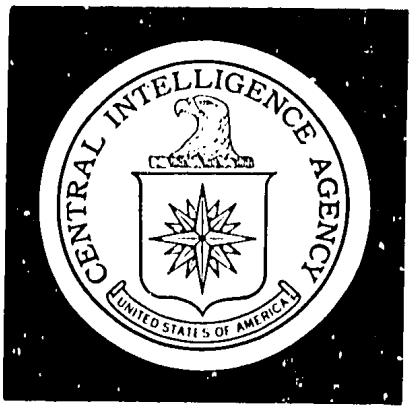

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Intelligence Memorandum

Communist China's Rising Imports Of Platinum Metals

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January 1970

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
January 1970

INTELLIGENCE MEMORANDUM

Communist China's Rising Imports Of Platinum Metals

Introduction

Preliminary trade returns indicate that Communist China made another record purchase of platinum metals in 1969, probably surpassing the peak level of $33 million imported in 1968. China has been purchasing a relatively large volume of platinum metals since 1965, but during 1968-69, a period of intensified Sino-Soviet border hostilities, its imports were much larger than in previous years. This memorandum examines briefly the role of platinum metals as strategic commodities and the potential control over prices and supplies exercised by the USSR as the dominant world producer; it describes the sources, trend, and probable end uses of China's recent imports;

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Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research.

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Platinum Metals as Strategic Goods

1. Metals of the platinum group* are employed in the manufacture of many types of modern industrial and military equipment, and for this reason the United States and many other countries that are forced to rely heavily on imports, maintain state stockpiles as contingencies against any potential loss of supply. Communist China, with no known platinum mines or refineries, apparently is dependent completely upon foreign sources both for new platinum metals and for the reprocessing of its scrap and spent equipment made from these metals.

2. Typically, the most intensive end users of platinum metals are chemical, petroleum, electrical, electronic, and glassmaking industries. These metals are used, for instance, in the manufacture of various types of scientific instruments and testing equipment; nitric and mixed acids for fertilizers, high explosives, and propellants, pharmaceuticals; high-octane gasoline and petrochemicals; viscose rayon fibers for textiles and tire cords; electrical contacts for relays and alarm systems; resistance thermometers, thermocouples, and magnets; spark plugs for aircraft engines; miniaturized electronic circuits and grids for radar tubes; and equipment for making glass products, including spinnerets for fiberglass materials and textiles. Small amounts of platinum metals also are used for making dental and medical equipment.

3. A substantial portion of the platinum metals used in industry represents a capital investment because little of the metal itself is consumed in the production process. This is true, for example, of platinum used as a catalyst in various chemical processes and of platinum used in the manufacture of instruments and fiber spinnerets. When the catalysts are spent, the instruments damaged, or the spinnerets worn, the platinum metals in them can be reclaimed. This provides a valuable secondary source of these metals.

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* *Platinum-group metals include platinum, palladium, iridium, osmium, rhodium, and ruthenium, all of which have similar properties and tend to occur together in nature.*

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4. World production of newly mined platinum metals in 1968 was estimated roughly at 3.4 million troy ounces, of which perhaps as many as 2 million ounces were produced in the USSR. Much smaller amounts were produced by South Africa, Canada, Colombia, the United States, Japan, and Ethiopia. Most of the Free World output was refined in the United Kingdom and Norway. As a result, the supply lines from the mine through the refinery to market typically are long, requiring up to nine months for the metals in mined ore to reach end users in refined condition. Of greater concern, the Free World output cannot supply Free World or even US demand, so that the availability of new platinum on the world market each year is greatly dependent upon how much the USSR decides to supply. By withholding its platinum metals from the market -- as it did, for example, in mid-1968 -- the USSR can engender strenuous competition for the output of the Free World. This uncertainty of the supply of platinum metals from the USSR is a source of continuing instability of the world market prices of platinum metals. It also is a major factor behind the routine stockpiling of platinum metals by the United States and presumably other countries as well.

Trends in China's Platinum Imports, 1957-69

5. Examination of available trade statistics dating back to 1957 reveals that only six countries -- all of them in the Free World -- have reported shipments of platinum metals to Communist China. As shown in Table 1, West Germany and the United Kingdom have been the principal suppliers, although small amounts also have been shipped by Japan, France, the Netherlands, and Switzerland. Some of the platinum shipped from these countries is known to have originated in the USSR. However, the total volume of Soviet shipments of platinum metals to China, either directly or indirectly, has never been reported.

6. China had imported fairly large quantities of platinum metals during the leap forward economic drive of 1958-59, but these imports had tapered off in 1960 and then were cut back to minimal amounts during the austerity programs of 1961-63. China began to import unprecedentedly large quantities of platinum in 1965, and these imports have been

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maintained at high or rising levels since that time. During the four years 1965-68, China imported a total of about $71 million worth of platinum metals, or nearly eight times the total of $9 million imported during the previous eight-year period, 1957-64. In the first half of 1969, China imported another $27 million worth of platinum metals, and if imports continued at even half this rate in the second half of the year, imports surpassed by a considerable margin the peak of $33 million purchased in 1968.

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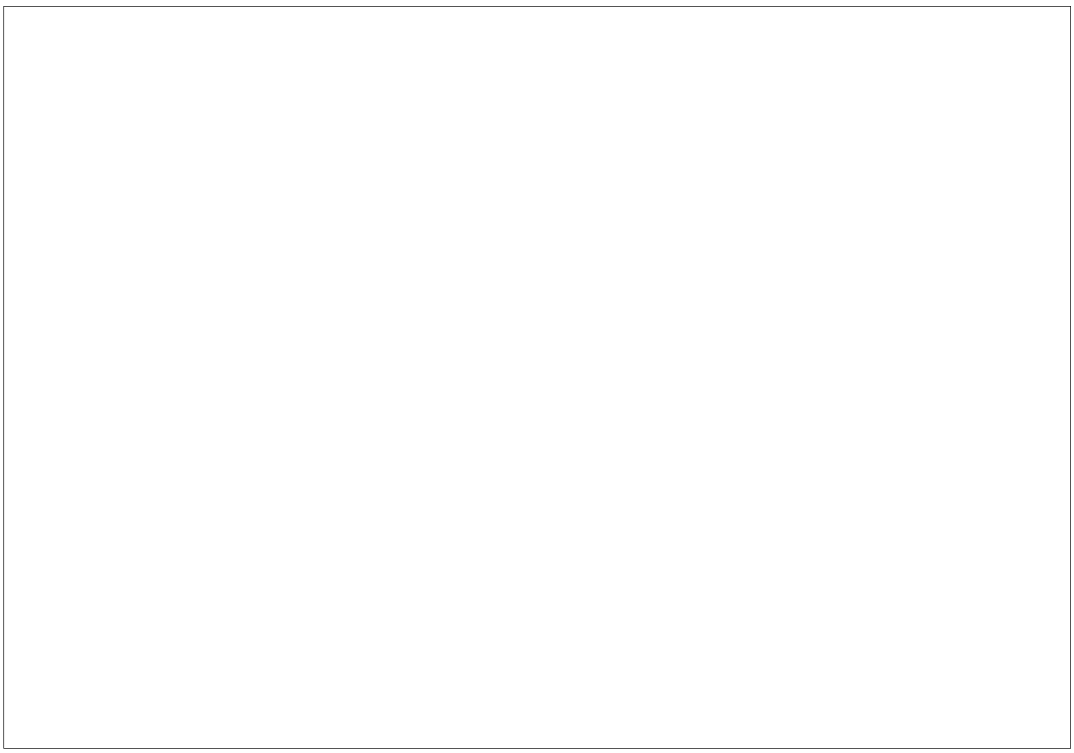

11. The coverage of the sample in relation to the aggregative trade statistics in Table 1 appeared to be extremely good. As suggested by the chart, the sample accounted for 89% of the total shipments of platinum metals to China reported in 1967, for about half of the shipments in 1968, and for 88% of the shipments in the first half of 1969.

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it is clear from the aggregative trade data that China in earlier years did not stockpile platinum metals on any scale approaching that of 1967-69. Some increase in stockpiling may have occurred in 1965, but much of the large increase in imports that year may have been attributable to the increased demand by chemical and petroleum industries. China's chemical industry needed large quantities of platinum metals for making nitric acid for fertilizers and other products and for use in the new spinnerets which were installed in viscose fiber plants that year. In the petroleum industry, increased requirements for platinum metals in catalytic reformers probably arose from plans for

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opening new reformers at the Ta-ching and Fu-shun petroleum refineries. Similarly, the falloff in imports in 1966 may have reflected in part reduced demand by these industries. As noted previously, platinum employed in reformer charges and fiber spinnerets is not used up in the process and thus may not require replacement or reprocessing for several years.

Reasons for Stockpiling

13. Several theories could be advanced to explain China's increased imports and the motivations behind the apparent decision to expand stockpiles of platinum metals. As to the magnitude of the imports, it is possible that the rise in their value since 1967 may exaggerate the increase in real or quantity terms because the prices of platinum metals were on the rise during some of this period. Free market prices charged by dealers

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on the world market, about $150 per troy ounce at the beginning of 1967, began to rise in the fall of 1967, when the British pound sterling was devalued, and then climbed to a record height of $300 per ounce in mid-1968, when the USSR withdrew from the market. Clearly, the rising trend of China's recent imports in value terms would be much less dramatic if it were deflated to account for a doubling of the price level. However, dealers supply only about 15% of the world platinum market, and this mostly to speculators. China's centralized importing agencies most likely have been able to fill requirements by buying at the much lower and more stable producer prices. These prices, set by the principal platinum fabricators and based on prices charged by their suppliers, remained relatively stable at about $109 per ounce during 1967 and the first half of 1968, then rose to $120 per ounce in mid-1968 and were maintained at that level in 1969. Deflating recent Chinese imports to account for a 10% price increase would have little dampening effect on the rising trend of these imports. Nor is it likely that a price rise of this magnitude would have been sufficient to induce China to begin buying in the volume reported simply because of expectations of higher prices in the future.

14. The tripled imports of platinum metals by China in 1968 and the continued large purchases in 1969 would seem to be far in excess of the demand during these years. China's economy was still in the throes of the Cultural Revolution during much of 1968, and the recovery in 1969 probably did not revive the demand for industrial materials much beyond the 1966 level, when imports of platinum metals were only one-fourth as large as those in 1968. Moreover, only about $11 million of the $33 million worth of platinum metals imported in 1968 has been attributed to probable stockpiling, leaving perhaps as much as $22 million for industrial and military requirements. However, the sample of contract data accounted for only about half of the reported total exports to China in 1968. If the share of imports allocated to stockpiles in the sample (about two-thirds) was representative of the allocation to stockpiles from total imports, then stockpiles rose by $22 million, leaving $11 million for industrial and military requirements.

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15. It seems evident that China's imports of platinum metals, in terms of both value and quantity, rose abruptly to unprecedentedly high levels in 1968 and 1969 and that these imports were well beyond conceivable current requirements; therefore, there is the strong indication [redacted] 25X1 that China has 25X1 been expanding its stockpiles. In this event, it has been suggested that the Chinese may have been buying platinum metals to diversify their international monetary reserves. Such a move is highly unlikely, however, because platinum metals are not accepted reserve metals, their prices are subject to sharp and unpredictable fluctuations, and the amounts purchased by China recently, although much larger than has ever been imported in the past, would have little impact on China's foreign reserves (which totaled about $685 million at the end of 1968).

16. Because of the timing and abruptness of China's large new purchases of platinum metals, the most likely explanation is that they reflect Chinese contingency planning in reaction to deteriorating relations with the USSR. Although the details of direct shipments, if any, of these metals to China by the USSR are not known, it is possible that the USSR recently cut off or threatened to cut off such exports to China, forcing the Chinese into greater competition for the relatively small amount which originates in the Free World. Certainly the Chinese must be mindful of this possibility, as well as of the added threat that the USSR might put pressure on its Free World marketers not to ship platinum metals to China. Even if the recent Sino-Soviet border hostilities do not escalate into a major military conflict, the Chinese may want assurance -- via expanded stockpiles -- that a shortage of platinum metals will not undercut any of their military programs or disrupt the operation of important industries.

Conclusions

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heavy buying of platinum metals from the Free World reflects in large part an attempt to expand its reserves of these strategic materials. [redacted] 25X1
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platinum metals placed in Chinese stockpiles is estimated, at a minimum, to have risen from $5 million in 1967 to $11 million in 1968 and to $22 million in the first half of 1969. Even with a generous allowance for increased prices, this represents at least a doubling of apparent additions to stockpiles within a span of 18 months.

18. Chinese motivations underlying these unusually large purchases cannot be known with certainty, but it is highly probable that the Chinese are expanding stockpiles in anticipation of further difficulties with the USSR. Should the recent threat of military warfare between the two Communist monoliths subside, China's new stockpiles of platinum metals would afford some protection from the economic warfare the USSR could wage by virtue of its dominant position in the world market for these metals.

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Table 1

Communist China: Identified Imports of Platinum Metals from the Free World

Thousand US $

Year	Total	West Germany	United Kingdom	Japan	France	Netherlands	Switzerland
1957	745	603	142	0	0	0	0
1958	5,265	4,894	371	0	0	0	0
1959	1,251	0	1,251	0	0	0	0
1960	686	180	506	0	0	0	0
1961	110	23	74	0	13	0	0
1962	87	33	54	0	0	0	0
1963	51	3	48	0	0	0	0
1964	800	411	235	0	153	0	1
1965	18,443	10,970	6,721	18	616	118	0
1966	8,808	6,746	1,644	222	157	29	0
1967	10,362	4,086	5,433	843	0	0	0
1968	33,097	17,893	11,349	3,809	46	0	0
Jan-Jun 1969	26,700	11,900	13,200	1,600	0	0	0

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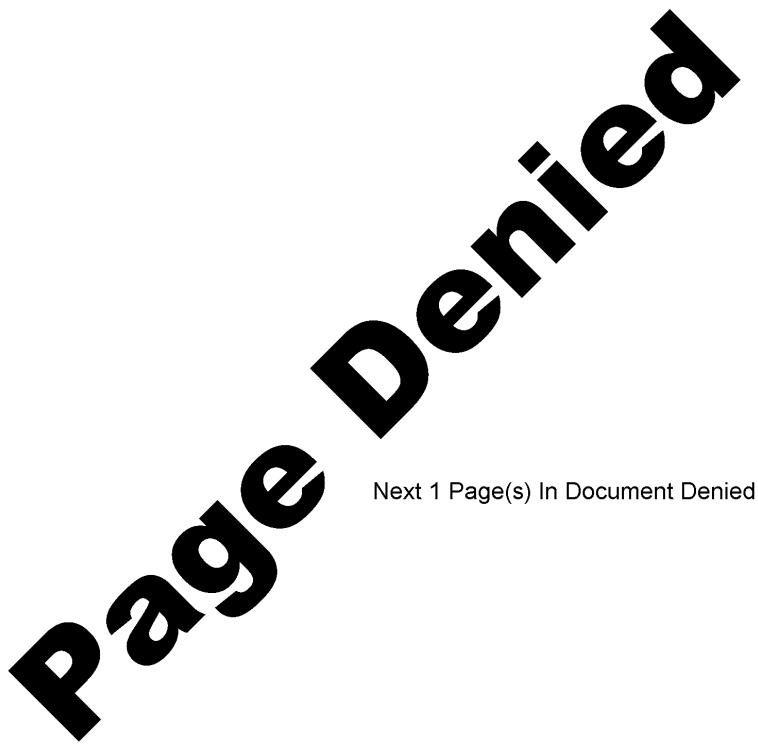

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Table 3

Communist China: Distribution of the Value of Observed Imports of Platinum Metals from the Free World, by Probable Consignee

Thousand US $

Probable Consignees	1967	1968	Jan-Jun 1969	Total 1967-69
State Material Reserves Main Bureau	5,140.4	11,214.3	22,117.7	38,472.4
First Ministry of Machine Building	482.8	2,244.2	301.9	3,028.9
Fourth Bureau (instruments and meters)	388.3	2,057.5	222.7	2,668.5
Sixth Bureau (nonmilitary vehicles)	94.5	-	-	94.5
Research Institutes	-	186.7	79.2	265.9
Ministry of the Chemical Industry	1,779.6	-	-	1,779.6
Unidentified agencies	723.2	-	486.0	1,209.2
General Rear Services Headquarters	-	659.8	546.2	1,206.9
Ministry of the Textile Industry	-	948.6	70.1	1,018.7
Ministry of Construction	257.3	535.0	-	792.3
Local foreign trade control bureaus	180.0	562.6	6.5	749.1
Ministry for the Allocation of Materials	307.7	-	-	307.7
Probable defense agencies	2.9	255.0	8.8	266.7
Ministry of Commerce	19.4	183.0	-	202.4
Military warehousing and supply agencies	197.5	0.8	-	198.3
Local branches of state trading agencies	45.6	23.1	13.4	82.1
Academy of Sciences	21.7	-	-	21.7

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Table 3

Communist China: Distribution of the Value of Observed Imports of Platinum Metals from the Free World, by Probable Consignee (Continued)

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Thousand US $

Probable Consignees	1967	1968	Jan-Jun 1969	Total 1967-69
China Scientific Instruments and Materials Corporation	14.5	-	-	14.5
State Oceanography Bureau	-	-	12.1	12.1
Fourth Ministry of Machine Building (electronics)	-	9.6	-	9.6
National Defense Scientific and Technological Commission	3.1	-	-	3.1
Fifth Ministry of Machine Building (conventional armaments)	-	2.1	-	2.1
Ministry of Forestry	-	1.3	-	1.3
Total	*9,175.7*	*16,639.4*	*23,562.7*	*49,377.8*

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